



Leveraging OPIC

Investment Finance and

Insurance Products

***to help U.S. and Nigerian companies
build their businesses***

Boosting the Nigerian Agricultural Sector Workshop
U.S. Embassy/Bank of Industry/Nigerian Bank Partners

Peter Ballinger
Director, Business Development (Finance)
Jamie Ekern
Investment Officer (Insurance)

OPIC's Mission

“ ...mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from non-market to market economies.”



OPIC's Role

- OPIC's differs from Ex-Im Bank in that we support the **investment** side of an international transaction, which often includes a sizeable component of U.S. exports of goods and services to make the investment possible
- OPIC's **investment** help U.S. businesses of all sizes invest in more than 150 emerging markets – markets where private sector finance or insurance is not available to American investors
- Over the agency's 37-year history, OPIC has supported **\$180 billion worth of investments**, *including more than \$800 million to U.S. investors in Nigeria in 37 projects*



Policy Issues

- Operate at no cost to the U.S. taxpayer
- Provide positive U.S. effects and host country social and economic development effects
- Complement the private sector and capital markets
- Assure that the projects it supports are consistent with sound environmental and worker rights standards
- Take into account guidance from the Administration and Congress on a country's observance of, and respect for, human rights

Tools to Support U.S. Investors

- Political Risk Insurance
- Finance (*Debt*)
- Investment Funds (*Equity*)

Enterprise Development Network (EDN)



Political Risk Insurance

Insures U.S. Investors against:

- **Inconvertibility**
- **Expropriation**
- **Political Violence**



Specialty coverages for lenders, NGOs, schools, oil and gas or mining projects, and contractors and exporters.

PRI does not cover commercial risk or currency devaluation risks.

Finance

- Investment Guarantee Program: Provides credit guarantees for loans ranging between \$10 million and \$250 million.
- Direct Loan Program: Reserved for small business and cooperatives ranging between \$100,000 and \$250 million.

OPIC will only finance projects that are commercially sound, have at least 25 percent U.S. ownership, have significant collateral and generate enough cash flow to pay the loan.



Investment Funds

- OPIC has supported 40 privately managed and owned equity funds that represent \$3 billion in aggregate debt and equity capital.
- The funds' investments must meet OPIC's U.S. and host country economic impact, environment and workers rights policy standards.



OPIC Support for Projects in SSA

- Historical
 - Sub-Saharan Africa
 - \$5.5 billion in insurance and finance
 - 387 projects
 - Nigeria
 - \$803 million in insurance and finance
 - 23 projects (manufacturing, energy, telecomm, financial)
- Current
 - Sub-Saharan Africa
 - \$2 billion in insurance, finance, and private equity
 - 79 projects
 - Nigeria
 - \$618 million in insurance, finance, and funds
 - 4 projects (manufacturing, energy, NGO)



Support for Agriculture Projects

- Historical
 - Worldwide
 - \$671 million in insurance and finance
 - 214 projects
 - Sub-Saharan Africa
 - \$95.8 million in insurance and finance
 - 30 projects
- Current
 - Worldwide
 - \$56.7 million in insurance and finance
 - 13 projects
 - Sub-Saharan Africa
 - \$1.1 million in insurance and finance
 - 2 projects





Investment Finance

Large structured finance transactions to small business loans

OPIC Finance Products

- Direct loans
 - Available to firms with under \$250 million in sales, or \$67 million in net worth
- Investment guaranties



Critical Elements

- Involvement of a U.S. investor, U.S. connection or other U.S. nexus
- Commercially and financially sound
- Strong track record of borrower

Overview of Financing

Medium- to long-term funding

- **Minimum 3-5 years**
- **Average loan tenor 6-9 years**
- **Up to 15 to 20 years**

Overview (*continued*)

Analysis of economic, technical, marketing and financial soundness of project

- **Evaluate risks to OPIC and investor and over life of project**
- **Structure transaction to minimize risks and make them acceptable to all parties**
- **Interactive process with client**



Overview *(continued)*

Adequate cash flow to:

- **Pay all operational costs**
- **Service all debt**
- **Provide owners with adequate return on their investment**

Project Ownership

U.S. debt or equity investor must assume a meaningful share of the risk

- 25 percent equity participation
- U.S. bank involved in transaction
- Franchise involvement
- Significant long-term involvement of contractors and/or operators
- Private sector majority ownership
- Government participation



Financing Techniques – 1

Project Finance

OPIC loan made directly to the overseas venture for the defined investment project

- Repayment from project cash flows
- Need not pledge general credit beyond cash flows, other than completion support, *but it helps!*
- Completion support is critical



Financing Techniques – 2

Corporate Finance

OPIC loan made to the parent company, the proceeds of which are to fund a defined investment project abroad

- Repayment by U.S.-based corporate entity
- Credit standing and cash flow of this company
- Strength of project company also important



Financing Plan - Structure

Strong finance structure with sound debt-to-equity ratios to avoid excessive leverage:

- New projects: 60/40, with OPIC providing no more than 50 percent of TPC in debt
- Expansions: 75/25, where OPIC may provide more than 50 percent of TPC in debt



Financing Plan – Costs

- Pre-investment/feasibility studies
- Organizational expenses
- Land and buildings
- Construction
- Equipment, machinery
- Financings costs
- Training and market development expenses
- Start-up expenses, including initial losses
- Adequate working capital
- Inventory expenses
- Legal costs

Completion/Sponsor Support

An agreement that guarantees the OPIC loan in the event of:

- Late completion
- Cost overruns
- Early operating problems



Completion Definitions

Includes certain financial, legal, operation and commercial tests as well as physical completion.

- Agreement covers the cost overruns prior to project completion and the project's debt service requirements.
- Helps assure a strong, viable project
- Sponsor must have financial capability to perform these obligations
- Protects OPIC

Loan Terms – Costs

Cost of financing is based on OPIC's assessment of the risks involved and a U.S. Treasury note

- Base rate reflects like or similar termed U.S. Government debt instruments**
- Guarantee fee or risk spread is added
- Fixed or floating rates available
- Other costs include a retainer fee, commitment fee, and an annual maintenance fee
- Outside legal counsel and the services of experts or consultants can also be charged

***Base rate info. available on OPIC website!*



Loan Terms – Repayment

Repayment schedule is based on:

- Purpose of loan
- Projected cash flows
- Quarterly or semi-annual payments
- Normally no early repayment charges



Investment Insurance

Political Risk Insurance

Unparalleled experience; unmatched claims handling reputation

What Political Risks does OPIC cover?

- **Currency Inconvertibility:** deterioration in the investor's ability to convert profits, debt service, and other investment returns from local currency into U.S. dollars and to transfer U.S. dollars out of the host country.
- **Expropriation:** loss of an investment due to expropriation, nationalization, or confiscation by the host government.
- **Political Violence:** loss of assets or income due to war, revolution, insurrection, politically motivated civil strife, terrorism, or sabotage.



What investments will OPIC insure?

- New projects or modernizations, expansions, or privatizations of existing projects; exceptions for NGOs
- Equity, debt, leases, or technical assistance investments, performance/advance payment guaranties, and contract disputes with host government
- Investments typically have to be for a term of at least three years
- Reinsurance



Mitigating Risks for Agriculture Projects

- Considerations for agriculture projects
 - Land/title disputes
 - Food shortages
 - Animal borne epidemics
- Useful PRI coverages
 - Equity
 - Covered property
 - Lenders
 - Equipment leases
 - Contractors & Exporters



Recent Agriculture Projects - Insurance

<u>Country</u>	<u>FY</u>	<u>Investor/Sponsor</u>	<u>Type</u>	<u>Amount</u>
Afghanistan	08	International Foundation of Hope	Fruit and nut orchards	\$1,825,583
Afghanistan	06	Mohammad E. Aslamy	Grape juice production	\$270,000
Iraq	06	United Marine International LLC	Weed harvester	\$107,544
Mexico	06	Wade Rain, Inc.	Equipment distribution	\$944,613
Nicaragua	06	Carols & Mevla Radon	Leatherleaf ferns	\$733,500
Nicaragua	06	Riverside Coffee, LLC	Leatherleaf ferns	\$1,467,000
Nicaragua	05	Carlos & Mevla Radon	Coffee plantation	\$5,000,000
Argentina	05	Philip C. Martinez	Vineyard and plum orchards	\$216,000
Russia	05	Siberian Frontier Farms, LLC	Dairy farm	\$4,500,000
Guinea-Bissau	04	Rota International Exporting, LLC	Organic cashew nuts	\$810,000
Nicaragua	04	Seminole Tribe of Florida	Cattle ranch	\$4,500,000
Uruguay	04	El Saladero USA, LLC	Cattle ranch	\$4,860,000
Ghana	03	Chicken George Farms, LLC	Poultry production/distribution	\$16,977,600
Nicaragua	03	CRISF, Inc.	Mango production	\$5,250,000



Case Study: Tea Importers, Rwanda

- Tea is Rwanda's second most important export product after coffee, representing about one-third of foreign exchange earnings.
- *Tea Importers*, has been a driving force in Rwanda's tea business since 1975.
 - SORWATHE, the Rwandan company in which *Tea Importers* is the U.S. investor, is the largest and only U.S. privately controlled producer of tea in Rwanda.
 - *Tea Importers*, a small business, was for many years the only U.S. investor in Rwanda.
- OPIC support for *Tea Importers* investment in Rwanda began in 1976.
 - \$550,000 loan to SORWATHE to assist in building the tea processing facility and plant 267 hectares (668 acres) of tea. Loan repaid in 1990.
 - \$266,000 in political risk insurance of equity and shareholder loan investment.
- Insurance Claims during Civil War
 - The factory was shelled and vehicles, office furniture, and computers were looted.
 - OPIC Insurance paid four political violence claims for losses totaling nearly \$250,000.
 - The compensation encouraged *Tea Importers* to stay and rebuild—SORWATHE was the first tea factory to resume production after the war.
- OPIC supported *Tea Importers*' expansion in 1997, committing an additional \$1.2 million in political risk insurance.
- Success Story
 - Acknowledged as the best run tea plantation and processing facility in the country.
 - Tea leaves are purchased from about 5,000 small landholders, thus making it an important source of cash income for the local population.
 - SORWATHE covers 10 percent of Rwanda's plantation area, but produces 20 percent of the country's black tea.



Special Programs – Financial Institutions

- OPIC can insure U.S. lenders against loan payment defaults due to inconvertibility, expropriation, or political violence.
- Borrowers must be private-sector enterprises in the foreign country.
- Other banking activities that can be insured include branch banking, microfinancing, debt-for-equity investments and commodity price or interest rate swaps.



Special Programs – Contractors & Exporters

- Covers U.S. contractors in international contracts and U.S. exporters of heavy machinery, equipment, and other goods.
- Foreign buyer is typically a foreign government entity.
- Three types of coverage
 - *Assets* (loss of physical assets due to confiscation or political violence, or the inconvertibility of proceeds from the sale of equipment)
 - *Wrongful calling of bid performance bond, or other guaranties*
 - *Contract disputes* (losses due to certain breaches by the foreign buyer of the contractual disputes resolution procedure)
- Contract disputes coverage is available only when
 - underlying contract contains a dispute resolution procedure that is fair, impartial, expeditious, and leads to enforceable results, and
 - project has secure and adequate funding.



Special Programs – Infrastructure

- Expropriation coverage for large infrastructure projects where a government has an obligation to supply or pay.
- Rely on nonpayment of an arbitral award in favor of the investor as the basis for expropriation.
- Arbitral award default coverage typically requires that the arbitration take place outside of the host country using the rules of a recognized international arbitration body (e.g. American Arbitration Association, ICSID, ICC).

Special Programs – Nonhonoring of a Sovereign Guaranty (NHSG)

- OPIC innovated this product, now offered by private market as well
- Expropriation coverage limited to NHSG of debt made for the benefit of U.S. capital market investors or banks
- Coverage provides an assurance debt service payments to U.S. lenders or bondholders in the event that
 - 1) Borrower defaultsAND
 - 2) Host government fails to honor its guaranty of the debt



Special Programs – Nonhonoring of a Sovereign Guaranty (NHSG)

- Criteria/Eligibility
 - Currently offered to private infrastructure projects with explicit sovereign guaranty
 - Evolving to include subsovereign and sovereign-owned entities (SOE) such as development banks that have a legal or implied sovereign guaranty by virtue of their ownership
 - Sovereign is signatory to New York convention
 - Both sovereign and subsovereign/SOE must be creditworthy or carry a rating of BB- or Ba3
- Can reinsure private sector NHSG product, even if terms and eligibility are different

Special Programs – Other

- **Oil and Gas and Mining/Natural Resources** (production sharing and concession agreements, service contracts, interference with operations)
- **Leasing, Management, or Technical Assistance Agreements** (capital or operating leases, investments of technology or “know-how”)
- **NGOs and Schools** (property, evacuation)
- **Stand-alone Terrorism and WMD** (equity, property)
- **Microfinance** (regulatory risks, foreign government acts affecting microenterprise borrowers, partial expropriation, local currency risks [forthcoming])



Advantages of OPIC Insurance

- Experience in over 150 countries of all risk levels
- No deal too small
- Cooperation with private insurers and multilaterals
- Full faith and credit of the U.S. government
- Claims History
- Advocacy



OPIC Insurance Claims History

- Unparalleled claims experience
 - \$969.6 million of claim settlements for 286 individual claims since FY71
 - \$892.1 million (92 percent) of claim settlements recovered
- Agriculture projects
 - \$27.7 million paid for 53 claims
 - 2.8 percent of total amount paid
 - 18.5 percent of total claims paid
 - \$4.3 million paid for 12 claims in SSA



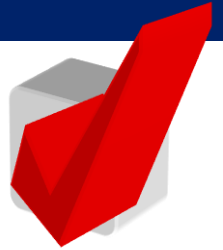
Terms and Conditions of Insurance

- Up to 20-year tenor
- Fixed premium rate
- Maximum coverage of \$250 million per project, \$300 million for oil and gas projects
- Up to 90 percent of investment (10 percent self-insurance), except for lenders



Who is eligible for OPIC Insurance?

- Citizens of the United States; or
- Corporations, partnerships or other associations created under the laws of the United States beneficially owned (51%) by U.S. citizens; or
- Foreign corporations more than 95% owned by investors eligible under the above criteria; or
- Other foreign entities that are 100% U.S. owned.





Investment Funds

OPIC-backed, Private Equity Funds for Africa

Harnessing the innovation and creativity of the private-equity sector

African Social Development Funds - 2008

- **AfricInvest Fund II**
\$175 million total capitalization
- **Africa Healthcare Fund**
\$100 million in total capitalization
- **Africa Telecom, Media & Technology Fund**
\$100 million total capitalization
- **GEF Africa Growth Fund**
\$150 million total capitalization
- *Numerous other Funds can invest in African companies...*



Enterprise Development Network

Supports SMEs with:

- Pre-investment support through the *Africa Technical Assistance* facility
- Loan application packaging by Loan Originators (LOs)
- EDN Program Manager assures application package is complete
- Possible funding by OPIC Designated Lender (DL), or other Network investors
- Funding provided by OPIC



<http://www.ednaccess.com> – *The new EDN Website!*

USAID African Entrepreneurs' Facility

Empowering Local BDSPs - East & West Africa

Through OPIC's Enterprise Development Network (EDN)

PARTNERS



Development Credit Authority Facilities



Designated Lending and Equity Facilities,
Direct Loans & Political Risk Insurance (PRI)



Credit Facilities

**OTHER GOV'T &
PRIVATE**

Debt and Equity Facilities

African Entrepreneurs' Facility – TA Funding
Interagency Agreement 632(b) - USAID to OPIC

Investment
& PRI Facilities



Debt & Equity
Investments & PRI

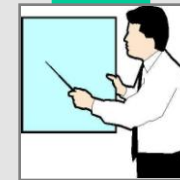
EDN Program Manager



Oversight
USAID Dir. AEF
OPIC Dir. EDN

Matched TA Funding

Technical
Assistance



Business Development
Service Providers (BDSPs)
(EDN Originators)

SME Projects in East and West Africa



Agriculture



Manufacturing



Housing



Enterprise
Development
Network

For OPIC business development inquiries:

202 336-8799

www.opic.gov

info@opic.gov

